

ELK RIDGE CITY
FINANCIAL STATEMENTS

June 30, 2006

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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
Elk Ridge City
Elk Ridge, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Elk Ridge City, Utah (the City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 3, 2007, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and on pages 47 and 48, are not a required part of the basic financial statement but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund information and the supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund information, and the supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.



JONES SIMKINS, P.C.

January 3, 2007

ELK RIDGE CITY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2006

As management of Elk Ridge City, we offer to those interested, this narrative overview and analysis of the financial activities of the City for the fiscal year ending June 30, 2006. This overview and analysis is also intended to assist the reader to focus on significant financial issues including identifying changes in the City's financial position. We encourage readers to consider the information presented here in conjunction with the City's financial statements. The City's activities are classified in the following manner: Governmental (General Administration, Public Safety, Streets and Class C Roads, Parks & Recreation; while Business-type activities refer to operations of the Water, Sewer and Storm Drainage Funds.

FINANCIAL HIGHLIGHTS

- The total net assets of the City increased from \$6,000,241 to \$7,223,367. The governmental net assets increased by \$439,406 and the business-type net assets increased by \$783,720. None of the three enterprise funds showed a net asset loss.
- The total assets of government and business-type activities is \$8,073,564 and is made up of \$5,825,656 in capital assets, such as land, infrastructure, buildings and equipment, and \$2,247,908 in other assets. The \$2,247,908 in other assets is comprised of \$377,523 restricted for capital projects and the remaining \$1,870,385 is unrestricted assets.
- Total long-term liabilities of the City decreased by \$359,990.
Water Fund: The decrease in long-term liabilities was primarily the result of payments being made on bonds. In fiscal year 2006, the City paid off all bonds except the Cloward Replacement Well Bond (Series 2002); the following Bonds were paid off: Series 1993R-1, 1993R-2, 1993R-3 & Series 1997.
Sewer Fund: The remaining balance on the note payable to Sterling Shuler was also paid off in fiscal year 2006.

REPORTING THE CITY AS A WHOLE

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components:

- 1) government-wide financial statements
- 2) fund financial statements, and
- 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, the reader will also have to consider other non-financial factors.
- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

ELK RIDGE CITY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2006

- Both of the government-wide financial statements, which together comprise the *statement of activities*, distinguish between activities that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The government-wide financial statements can be found on page 11 of this report.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Elk Ridge City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental and proprietary funds.

- *Governmental Funds* – These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The major governmental funds (as determined by generally accepted accounting principles) are the General Fund and Future Improvements Capital Projects Fund. The City also has other Capital Project Funds and the Parks & Trails Special Revenue Fund; all of which are considered non-major governmental funds.

- *Proprietary Funds* - Elk Ridge City maintains one type of proprietary fund, the enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Elk Ridge City uses enterprise funds to account for its Water Utility, Sewer Utility and Storm Drain Utility.

As determined by generally accepted accounting principles, the water fund and the sewer fund meet the criteria of major fund classification.

- *Fiduciary Funds* – These funds are used to account for resources held for the benefit of parties outside the government. The City currently has no *fiduciary funds*.

ELK RIDGE CITY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2006

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Elk Ridge City, assets exceed liabilities by \$ 7,223,367.

By far the largest portion of Elk Ridge City's net assets (76%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

STATEMENT OF NET ASSETS

	Governmental Activities		Business-type Activities	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Current and other assets	\$ 1,158,211	1,192,301	1,018,599	1,055,607
Capital assets, net	<u>3,009,029</u>	<u>3,442,776</u>	<u>1,983,368</u>	<u>2,382,880</u>
Total assets	<u>4,167,240</u>	<u>4,635,077</u>	<u>3,001,967</u>	<u>3,438,487</u>
Current liabilities	408,725	467,794	33,489	15,641
Noncurrent liabilities	<u>56,015</u>	<u>25,377</u>	<u>670,737</u>	<u>341,385</u>
Total liabilities	\$ <u>464,740</u>	<u>493,171</u>	<u>704,226</u>	<u>357,026</u>
Net assets:				
Invested in capital assets, net of related debt	\$ 2,953,014	3,417,400	1,312,631	2,041,495
Restricted for:				
Impact fee	58,395	42,332	104,736	167,028
Bond requirements	-	-	317,849	189,275
Unrestricted	<u>691,091</u>	<u>682,174</u>	<u>562,525</u>	<u>683,663</u>
Total net assets	\$ <u>3,702,500</u>	<u>4,141,906</u>	<u>2,297,741</u>	<u>3,081,461</u>

ELK RIDGE CITY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2006

GOVERNMENTAL ACTIVITIES

Governmental activities net assets increased by \$439,406 for the current fiscal year. Key elements of this increase are as follows:

- The City received over \$434,000 of developer constructed streets, recorded as capital contributions.
- Increases in sales tax and charges for services offset increases in expenses related to general government, public safety and streets and highways..
- The City's growth was limited because the City's sewer system capacity was limited by its agreement with Salem City.
- The City has a policy of closely monitoring the expenditures of the various departments within the City.

BUSINESS-TYPE ACTIVITIES

Business-type activities net assets increased by \$783,720. Key elements of this increase are as follows:

- As subdivisions are developed in Elk Ridge, the developers are responsible to construct the various utilities that are necessary to service the future homes and home businesses within the developments. The improvements are then dedicated to the City for future operation and maintenance. Included among these utilities are the water and sewer systems, and the storm drain system. The value of these improvements is then added to the City's assets.
- The overall charges for services attributed to the proprietary funds (water, sewer & storm drain) remain consistent in all but the water fund, which sustained an increase in the base rate from \$25 for the first 12,000 gallons to \$40 for the first 12,000 gals. This increase was enacted in 2002. The tiered structure was also amended; the increases were initiated to conserve water in a drought situation, as well as to build capital for projected capital expenses in the water fund (replacement well in 2002) and the future well that is projected at the north end of the City (cost is projected at over \$1,000,000). The City is also exploring the costs to install 2 one million gallon water storage tanks.
- The charges for sewer service have remained constant for several years, with no change. Subsequent to year-end, the City has signed a contract with Payson City to sewer the majority of the City with them. This will result in an increase in the sewer rates sufficient to pay Payson City the agreed upon amount of \$22/connection per month plus enough to cover the operation and maintenance that the City will require. An agreement was also signed to sell the 18% ownership in the Salem Sewer Plant to Salem City at the price of \$250,000; payable at \$50,000/year for five years.
- The storm drain fee (\$3.00) became effective in February of 2004 and has not been altered. This has been sufficient to maintain the clean-out of the sumps; however, to construct the necessary culverts and some curb and gutter in the City, the City Council is evaluating whether the Storm Drainage Fee will have to be increased in the near future.

ELK RIDGE CITY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2006

CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Revenues				
Program revenues				
Charges for services	\$ 164,138	207,183	610,919	733,898
Operating grants and contributions	111,978	105,961	-	-
Capital grants and contributions	-	442,491	16,623	427,670
General revenues				
Property taxes	189,985	199,852	-	-
Sales & use taxes	153,035	171,492	-	-
Franchise taxes	92,178	109,213	-	-
Other taxes	456	258	-	-
Other revenues	<u>23,849</u>	<u>38,882</u>	<u>15,138</u>	<u>24,582</u>
Total revenues	\$ <u>735,619</u>	<u>1,275,332</u>	<u>642,680</u>	<u>1,186,150</u>
Expenses				
General government	\$ 260,113	334,446	-	-
Public safety	124,351	179,935	-	-
Streets/highways	150,884	221,479	-	-
Parks & recreation	24,248	39,515	-	-
Sanitation	66,167	75,551	-	-
Water	-	-	274,041	252,967
Sewer	-	-	117,598	126,942
Storm drain	<u>-</u>	<u>-</u>	<u>1,179</u>	<u>7,521</u>
Total expenses	\$ <u>625,763</u>	<u>850,926</u>	<u>392,818</u>	<u>387,430</u>
Increase in net assets before transfers	\$ 109,856	424,406	249,862	798,720
Transfer	<u>28,000</u>	<u>15,000</u>	<u>(28,000)</u>	<u>(15,000)</u>
Change in net asset	137,856	439,406	221,862	783,720
Net assets beginning	<u>3,564,644</u>	<u>3,702,500</u>	<u>2,075,879</u>	<u>2,297,741</u>
Net assets ending	\$ <u>3,702,500</u>	<u>4,141,906</u>	<u>2,297,741</u>	<u>3,081,461</u>

ELK RIDGE CITY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2006

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. As of June 30, 2006, the City's governmental funds (General, Capital Projects and Special Revenue) reported combined fund equity of \$724,507. This represents a *decrease* of \$24,979 from last year's ending balances.

The General Fund is the chief operating fund of the City. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses, are accounted for in this fund.

Taxes continue to be largest source of revenue in the General Fund and represent 54% of total general fund revenues. This compares with 54% for 2005. The two largest elements of taxes are Property Taxes and Sales & Use Taxes, as it has been for the last several years. Sales & Use Taxes represent 36% of total tax revenues and 19% of total General Fund revenues. These compare with 35% and 19% respectively in 2005. Property tax, represents 35% of total tax revenues and 19% of the total General Fund revenues. These compare with 38% and 20% in 2005.

As stated earlier, the City maintains three enterprise funds to account for the business-type activities of the City. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

The Water Fund "Charges for Services" increased by approximately \$79,000 in fiscal year 2006 due to growth in the City. During fiscal year 2006, the Water Fund's revenue from water rights decreased by over \$27,000 because of the change in policy to *not* charge new homeowners to upgrade their water rights. This change in policy was due to an extensive water right study conducted by an outside consultant to Aqua Engineering; as well as, the re-evaluation of the practice of requiring more water rights when the developer had already satisfied the requirement at the time of the original conveyance of water rights to the City. The amount of cash available to purchase more water rights will increase in the future years due to two elements:

- The policy of accepting "cash-in-lieu" of providing actual water rights to deed to the City was a result of the water right study and the recommendation to decrease the amount of water rights required per acre-foot; this left the City with an extra amount of water rights to allocate to developers. Development has been slow due to a lack of sewerage options; this has changed with the signing of a sewerage contract with Payson City. Developers need the water rights and can, if they choose, reimburse the City in exchange for water right allocation. Currently, the City is negotiating for added water rights. The "cash-in-lieu" price is whatever the market value is at the time of payment to the City.
- Growth will produce more revenue to purchase the necessary rights to meet the demands of growth.

The Sewer Fund charges for services only increased by \$3,597 in fiscal year 2006. The sewer rates have not changed for years; but this will change with the adjustment in sewerage with Payson City. The rates will have to cover the base rate to Payson City (\$22.00 per connection) plus the cost for operations & maintenance for the City. A portion of the City (future homes north of 11200 South) will sewer with Salem City at about the same rate.

The Storm Drainage Fund (a nonmajor enterprise fund) charges a nominal fee (\$3.00 per connection) to cover any clean-out. These charges for services totaled \$18,727 in fiscal year 2006.

ELK RIDGE CITY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2006

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2006, it was common to make adjustments to the original budget. There are often matters that are unknown during the initial budget approval process which occur during the course of the year which require action on the part of the City Council. These unknowns may be factors outside the control of the City administration such as significant increases in the cost of fuel or particularly harsh winters or hot summers, which can drive up the cost of energy. At times there are unforeseen operation and maintenance costs. There may also be purchasing and construction opportunities which become available that are advantageous to the City.

The budget is constantly reviewed by the Mayor, the City Council and the office staff. Typically, there is a mid-year amendment to the budget and then again at the end of the fiscal year, in June. Many adjustments are minor and simply reflect keeping current with year-to-date actual revenues and expenditures; however, some adjustments are of greater significance.

In 2006, the City was faced with significantly higher fuel prices that affected every aspect of City government. Budget amendments were also made to continue to increase the budget for the general government department over insurance premiums and employee benefits.

Working with park impact fees, the City completed the second phase of the rock wall on the north side of the ball park area and also created a paved parking lot for the ball park.

The City has been replacing older roads that have degenerated past the point of effective repair. This ongoing project is nearly completed. The City Council, in years past, voted to use energy taxes to fund road projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets – Elk Ridge City's investment in capital assets for its governmental and business-type activities as of June 30, 2006 amounts to \$5,825,656 net of accumulated depreciation of \$2,097,599. This investment in capital assets includes land, buildings and systems, improvements, infrastructure (streets, sidewalks, curb and gutter, etc.), and machinery and equipment. The increase in the City's investment in governmental fixed assets from the previous year was \$833,529. This mostly resulted from developer donation of capital assets.

Infrastructure accounts for \$485,798 of the increase in governmental fixed assets.

Long-term debt – As of June 30, 2006, the City had a total debt outstanding of \$366,762, compared with \$726,752 as of June 30, 2005. None of the debt is considered to be general obligation debt backed by the full faith and credit of the City.

Included in long term debt is a lease/purchase agreement with Zions Bank for the purchase of a Fire Truck in the amount of \$25,377. The City also has a Water Parity Bond outstanding with the State of Utah, Drinking Water Division amounting to \$295,000. The City also has a Note Payable to Dallas Young outstanding in the amount of \$46,385. The City used existing cash to pay off four bonds early, increasing the bonding capacity of the City.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of Elk Ridge City's finances for all those with an interest in the City's finances. Questions concerning any information provided in this report or requests for additional information should be addressed to: City Recorder, Elk Ridge City, 80 E. Park Drive, Elk Ridge, UT 84651.

Basic Financial Statements

ELK RIDGE CITY
STATEMENT OF NET ASSETS
June 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ -	289,635	289,635
Pooled cash and cash equivalents	747,360	496,674	1,244,034
Accounts receivable, net	18,124	80,023	98,147
Due from other governments	238,487	-	238,487
Deposits	82	-	82
Restricted assets:			
Cash and cash equivalents	188,248	189,275	377,523
Land	201,207	138,201	339,408
Construction in Process	21,524	-	21,524
Water rights	-	188,277	188,277
Buildings	116,854	-	116,854
Improvements other than buildings	90,768	-	90,768
Machinery and equipment	547,009	-	547,009
Infrastructure	3,478,084	-	3,478,084
Structures and systems	-	3,141,331	3,141,331
Accumulated depreciation	(1,012,670)	(1,084,929)	(2,097,599)
 Total assets	 4,635,077	 3,438,487	 8,073,564
<u>Liabilities</u>			
Accounts payable	59,130	1,514	60,644
Deposits due customers	-	8,522	8,522
Contractor deposits	192,659	-	192,659
Contractor performance bonds	30,771	-	30,771
Accrued expenses	4,816	5,605	10,421
Deferred revenue	180,418	-	180,418
Noncurrent liabilities:			
Due within one year	11,883	29,277	41,160
Due in more than one year	13,494	312,108	325,602
 Total liabilities	 493,171	 357,026	 850,197
<u>Net Assets</u>			
Invested in capital assets, net of related debt	3,417,400	2,041,495	5,458,895
Restricted for:			
Impact fees	42,332	167,028	209,360
Bond requirement	-	189,275	189,275
Unrestricted	682,174	683,663	1,365,837
 Total net assets	 \$ 4,141,906	 3,081,461	 7,223,367

The accompanying notes are an integral
part of these financial statements

ELK RIDGE CITY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Activities	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental:							
General government	\$ 334,446	113,325	-	-	(221,121)		(221,121)
Public safety	179,935	167	27,520	7,500	(144,748)		(144,748)
Streets/highways	221,479	4,211	71,851	434,991	289,574		289,574
Sanitation	75,551	70,782	-	-	(4,769)		(4,769)
Parks and recreation	39,515	18,698	6,590	-	(14,227)		(14,227)
Total governmental activities	\$ 850,926	207,183	105,961	442,491	(95,291)	-	(95,291)
Business-type activities:							
Water fund	\$ 252,967	553,617	-	149,817	-	450,467	450,467
Sewer fund	126,942	161,554	-	198,289	-	232,901	232,901
Non-major enterprise funds	7,521	18,727	-	79,564	-	90,770	90,770
Total business-type activities	\$ 387,430	733,898	-	427,670	-	774,138	774,138
Total primary government	\$ 1,238,356	941,081	105,961	870,161	(95,291)	774,138	678,847
General revenues:							
Taxes:							
Sales and use tax					171,492	-	171,492
Franchise tax					109,213	-	109,213
Property tax					199,852	-	199,852
Other taxes					258	-	258
Total taxes					480,815	-	480,815
Miscellaneous							
Investment income					1,169	-	1,169
Transfers					37,713	24,582	62,295
					15,000	(15,000)	-
Total general revenues and transfers					534,697	9,582	544,279
Change in net assets					439,406	783,720	1,223,126
Net assets—beginning					3,702,500	2,297,741	6,000,241
Net assets—ending					4,141,906	3,081,461	7,223,367

The accompanying notes are an integral part of these financial statements.

ELK RIDGE CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General	Future Improvements Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Pooled cash and cash equivalents	\$ 154,426	376,780	216,154	747,360
Accounts receivable, net	18,124	-	-	18,124
Due from other governments	238,487	-	-	238,487
Restricted assets:				
Cash and cash equivalents	188,248	-	-	188,248
Deposits	82	-	-	82
Total assets	<u>\$ 599,367</u>	<u>376,780</u>	<u>216,154</u>	<u>1,192,301</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 29,417	-	29,713	59,130
Contractor deposits	192,659	-	-	192,659
Contractor performance bonds	30,771	-	-	30,771
Accrued expenses	4,816	-	-	4,816
Deferred revenue	180,418	-	-	180,418
Total liabilities	<u>438,081</u>	<u>-</u>	<u>29,713</u>	<u>467,794</u>
Fund balances:				
Reserved for:				
Impact fees	-	-	42,332	42,332
Unreserved - designated	-	-	144,109	144,109
Unreserved - undesignated	161,286	376,780	-	538,066
Total fund balances	<u>161,286</u>	<u>376,780</u>	<u>186,441</u>	<u>724,507</u>
Total liabilities and fund balances	<u>\$ 599,367</u>	<u>376,780</u>	<u>216,154</u>	<u>1,192,301</u>

The accompanying notes are an integral
part of these financial statements

ELK RIDGE CITY
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
For the Year Ended June 30, 2006

Total fund balances for governmental funds \$ 724,507

Amounts reported for governmental activities in the Statement of Net
Assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

Land	\$ 201,207	
Infrastructure	3,478,084	
Buildings	116,854	
Improvements	90,768	
Machinery and equipment	547,009	
Construction in progress	21,524	
Accumulated depreciation	<u>(1,012,670)</u>	3,442,776

Long-term liabilities and related accrued interest are not due and
payable in the current period and therefore are not reported in the
funds.

Capital leases	<u>(25,377)</u>
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Net assets of governmental activities	\$ <u><u>4,141,906</u></u>
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The accompanying notes are an integral part
of these financial statements.

ELK RIDGE CITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

	General	Future Improvements Capital Projects	Nonmajor Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 480,815	-	-	480,815
Licenses & permits	90,996	-	-	90,996
Intergovernmental	98,964	-	-	98,964
Charges for services	168,457	-	18,645	187,102
Miscellaneous	50,144	-	-	50,144
Total revenues	889,376	-	18,645	908,021
Expenditures:				
General government	411,801	-	-	411,801
Public safety	200,881	-	-	200,881
Streets/highways	194,012	-	-	194,012
Sanitation	75,551	-	-	75,551
Parks and recreation	30,917	-	34,838	65,755
Total expenditures	913,162	-	34,838	948,000
Deficiency of revenues over expenditures	(23,786)	-	(16,193)	(39,979)
Other financing sources (uses):				
Transfers in	21,381	19,744	37,500	78,625
Transfers out	(37,244)	-	(26,381)	(63,625)
Total other financing sources (uses)	(15,863)	19,744	11,119	15,000
Change in fund balance	(39,649)	19,744	(5,074)	(24,979)
Fund balance - July 1	200,935	357,036	191,515	749,486
Fund balance - June 30	\$ 161,286	376,780	186,441	724,507

The accompanying notes are an integral part
of these financial statements.

ELK RIDGE CITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Net change in fund balance - Total governmental funds	\$	(24,979)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$118,867) exceeded capital outlays (\$110,123) in the current period.

(8,744)

Governmental funds do not report the contribution of capital assets from third parties. However, the Statement of Activities reports these third party contributions as capital grants and contributions.

442,491

Bond proceeds and capital leases provide current financial resources to governmental funds by issuing debt which increases long-term liabilities in the Statement of Net Assets. Repayment of bond and capital lease principal are expenditures in the governmental funds.

Payment of notes payable principal	\$	5,000	
Payments on capital leases		25,638	30,638
Change in net assets of governmental activities	\$	439,406	

The accompanying notes are an integral part
of these financial statements.

ELK RIDGE CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Nonmajor Fund</u>	<u>Total Business Type Activities</u>
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ -	289,635	-	289,635
Pooled cash and cash equivalents	473,502	3,169	20,003	496,674
Accounts receivable, net	65,066	13,164	1,793	80,023
Total current assets	<u>538,568</u>	<u>305,968</u>	<u>21,796</u>	<u>866,332</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	189,275	-	-	189,275
Capital assets:				
Water rights	188,277	-	-	188,277
Land	114,039	12,539	11,623	138,201
Structures and systems	2,202,644	833,866	104,821	3,141,331
Accumulated depreciation	(771,927)	(308,756)	(4,246)	(1,084,929)
Total noncurrent assets	<u>1,922,308</u>	<u>537,649</u>	<u>112,198</u>	<u>2,572,155</u>
Total assets	\$ <u>2,460,876</u>	<u>843,617</u>	<u>133,994</u>	<u>3,438,487</u>
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	\$ 1,514	-	-	1,514
Deposits due customers	8,522	-	-	8,522
Accrued interest payable	5,605	-	-	5,605
Bonds and notes payable	29,277	-	-	29,277
Total current liabilities	<u>44,918</u>	<u>-</u>	<u>-</u>	<u>44,918</u>
Noncurrent liabilities:				
Bonds and notes payable	312,108	-	-	312,108
Total liabilities	<u>357,026</u>	<u>-</u>	<u>-</u>	<u>357,026</u>
<u>Net Assets</u>				
Invested in capital assets, net of related debt	1,391,648	537,649	112,198	2,041,495
Restricted:				
Impact fees	167,028	-	-	167,028
Bond requirements	189,275	-	-	189,275
Unrestricted	355,899	305,968	21,796	683,663
Total net assets	\$ <u>2,103,850</u>	<u>843,617</u>	<u>133,994</u>	<u>3,081,461</u>

The accompanying notes are an integral part
of these financial statements.

ELK RIDGE CITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006

	Water Fund	Sewer Fund	Nonmajor Fund	Total Business Type Activities
Operating revenues:				
Charges for services	\$ 418,736	120,154	18,727	557,617
Connection fees	7,500	3,600	-	11,100
Miscellaneous income	4,104	-	-	4,104
Total operating revenues	<u>430,340</u>	<u>123,754</u>	<u>18,727</u>	<u>572,821</u>
Operating expenses:				
Administrative fee	51,426	23,754	-	75,180
Current expenses	117,171	77,453	5,941	200,565
Depreciation	67,907	25,735	1,580	95,222
Total operating expenses	<u>236,504</u>	<u>126,942</u>	<u>7,521</u>	<u>370,967</u>
Operating income (loss)	<u>193,836</u>	<u>(3,188)</u>	<u>11,206</u>	<u>201,854</u>
Non-operating revenues (expenses):				
Impact fees	60,300	37,800	-	98,100
Water right fees	62,977	-	-	62,977
Interest income	12,528	12,054	-	24,582
Transfer out	(7,500)	(7,500)	-	(15,000)
Interest expense	(16,463)	-	-	(16,463)
Non-operating revenues (expenses)	<u>111,842</u>	<u>42,354</u>	<u>-</u>	<u>154,196</u>
Capital contributions	<u>149,817</u>	<u>198,289</u>	<u>79,564</u>	<u>427,670</u>
Change in net assets	455,495	237,455	90,770	783,720
Net assets - July 1	<u>1,648,355</u>	<u>606,162</u>	<u>43,224</u>	<u>2,297,741</u>
Net assets - June 30	<u>\$ 2,103,850</u>	<u>843,617</u>	<u>133,994</u>	<u>3,081,461</u>

The accompanying notes are an integral part
of these financial statements.

ELK RIDGE CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Nonmajor Fund</u>	<u>Total Business Type Activities</u>
<u>Cash flows from operating activities:</u>				
Receipts from customers and users	\$ 397,759	124,298	18,865	540,922
Payments to suppliers	(130,848)	(77,453)	(5,941)	(214,242)
Payments for interfund services used	(51,426)	(23,754)	-	(75,180)
Net cash provided by operating activities	<u>215,485</u>	<u>23,091</u>	<u>12,924</u>	<u>251,500</u>
<u>Cash flows from non-capital financing activities:</u>				
Impact and water right fees	123,277	37,800	-	161,077
Transfer to capital projects funds	(7,500)	(7,500)	-	(15,000)
Net cash provided by non-capital financing activities	<u>115,777</u>	<u>30,300</u>	<u>-</u>	<u>146,077</u>
<u>Cash flows from capital financing activities:</u>				
Acquisition and construction of capital assets	(8,130)	(58,934)	-	(67,064)
Principal payments on debt	(326,852)	(2,500)	-	(329,352)
Interest payments on debt	(20,634)	-	-	(20,634)
Net cash used by capital financing activities	<u>(355,616)</u>	<u>(61,434)</u>	<u>-</u>	<u>(417,050)</u>
<u>Cash flows from investing activities:</u>				
Interest on investments	12,528	12,054	-	24,582
Net cash provided by investing activities	<u>12,528</u>	<u>12,054</u>	<u>-</u>	<u>24,582</u>
Net increase (decrease) in cash and cash equivalents	(11,826)	4,011	12,924	5,109
Cash and cash equivalents - July 1	<u>674,603</u>	<u>288,793</u>	<u>7,079</u>	<u>970,475</u>
Cash and cash equivalents - June 30	<u>\$ 662,777</u>	<u>292,804</u>	<u>20,003</u>	<u>975,584</u>

(continued)

The accompanying notes are an integral
part of these financial statements

(continued)

ELK RIDGE CITY
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Nonmajor Fund</u>	<u>Total Business Type Activities</u>
Shown in Statement of Net Assets as:				
Cash and cash equivalents	\$ -	289,635	-	289,635
Pooled cash and cash equivalents	473,502	3,169	20,003	496,674
Restricted cash and cash equivalents	189,275	-	-	189,275
	<u>\$ 662,777</u>	<u>292,804</u>	<u>20,003</u>	<u>975,584</u>
Supplemental disclosures:				
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 193,836	(3,188)	11,206	201,854
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	67,907	25,735	1,580	95,222
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	(32,581)	544	138	(31,899)
Increase (decrease) in accounts payable	(14,889)	-	-	(14,889)
Increase in deposits due customers	1,212	-	-	1,212
Total adjustments	21,649	26,279	1,718	49,646
Net cash provided by operating activities	<u>\$ 215,485</u>	<u>23,091</u>	<u>12,924</u>	<u>251,500</u>
Schedule of non-cash capital and related financing activities:				
Capital assets acquired	\$ (157,947)	(257,223)	(79,564)	(494,734)
Acquired by capital contribution	149,817	198,289	79,564	427,670
Net cash paid for assets acquired	<u>\$ (8,130)</u>	<u>(58,934)</u>	<u>-</u>	<u>(67,064)</u>

The accompanying notes are an integral
part of these financial statements

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Notes to the Basic Financial Statements

ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies

The financial statements of Elk Ridge City (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

Financial Reporting Entity

The City operates as an incorporated governmental entity within the State of Utah. The City operates under the Council-Mayor form of government and provides the following services: public safety (police and fire), highway and streets, sanitation, recreation, public improvements, planning and zoning and general administrative services.

The City's basic financial statements include the accounts of all City operations. The accounting policies of the City conform to generally accepted accounting principles.

The City has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective government board.

Basic Financial Statements - Government-Wide Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's public safety, streets and public improvements, recreation, planning and zoning and general administrative services are classified as governmental activities. The City's water, sewer and storm drainage services are classified as business-type activities.

ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are (a) presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

Governmental activities are usually financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (general, public safety, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants.

Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property or sales taxes, intergovernmental revenues, interest income, etc.). The City does not allocate indirect costs.

These government-wide statements focus more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

Basic Financial Statements – Fund Statements

The City's accounting system is organized on a fund basis. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the government establishes for accountability purposes in accordance with statutes, laws, regulations, restrictions, or specific purposes. Separate financial statements are provided for governmental funds and proprietary funds. The emphasis of fund financial statements is on major individual funds, as defined by GASB Statement No. 34, with each displayed as a separate column. All remaining governmental and proprietary funds are aggregated and reported as non-major funds in their respective fund financial statements.

ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

The following fund types are used by the City:

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City.

- The **General Fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- The **Special Revenue Funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.
- The **Capital Projects Funds** are used to account for financial resources to be used for the acquisition of capital facilities and equipment by the City.

The City's major governmental funds consist of the following:

General Fund - see description above.

Future Improvements Capital Projects Fund - This fund accounts for the financial resources accumulated for the acquisition of general capital facilities or equipment.

The City's nonmajor governmental funds consist of a special revenue fund that collects impact fees and other resources for park development and maintenance and other capital project funds that accumulate resources for the future replacement and construction of capital assets.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as investment earnings, are reported as non-operating.

ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

- **Enterprise funds** are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

The City's major enterprise funds consist of the following:

Water Fund - This fund accounts for the water services provided to City residents.

Sewer Fund - This fund accounts for the sewer services provided to City residents.

The City's nonmajor enterprise fund accounts for the operations of the City's storm water drainage system.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service and compensated absences expenditures are recorded only when payment is due.

ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

Financial Statement Amounts

Cash and cash equivalents

For the purpose of the Statement of Net Assets, the term "cash and cash equivalents" includes all demand deposit accounts, savings accounts, or other short-term, highly liquid investments. For the purposes of the Statement of Cash Flows, the enterprise funds consider all highly liquid investments (including restricted assets) with original maturities of three months or less to be cash equivalents.

Interfund Receivables and Payables

During the course of operations, transactions sometimes occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

Accounts Receivable and Due From Other Governments

Receivables consist of all revenues earned at year-end but received after year-end. Allowances for uncollectible accounts are based upon historical trends. Receivable balances for the governmental activities include sales taxes, franchise taxes, property taxes, garbage collection fees, and other fees. Business-type activities report receivables for utility service fees.

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical costs. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs for repairs and maintenance are expensed as incurred.

Depreciation on all depreciable assets has been provided over the estimated useful lives using the straight-line method. The ranges of estimated useful lives are as follows:

Buildings	40 years
Water, sewer, and storm drain improvements	15 to 50 years
Equipment	5 to 20 years

In the governmental fund financial statements, the acquisition or construction of capital assets is accounted for as capital outlay expenditures.

ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

Capitalized Interest

The City capitalizes net interest costs as part of the cost of construction for proprietary capital projects when material.

Deferred Revenues

In the government-wide statements and the proprietary fund statements, deferred revenue is recognized when cash or other assets are received or recognized prior to being earned. In the governmental fund statements, deferred revenue is recorded when revenue is either unearned or unavailable.

Compensated Absences

The City's policies regarding vacation time permit employees to accumulate unused vacation leave. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds do not report a liability for compensated absences while proprietary funds report the liability as it is incurred. Compensated absences related to governmental activities are usually liquidated by the General Fund. In the government-wide financial statements, the liability for governmental activities compensated absences is insignificant.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide financial statements. The long-term debt consists of bonds payable, capital leases payable, notes payable, and accrued compensated absences. The City uses the general fund to liquidate long-term debt related to governmental activities.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund long-term debt is the same in the fund statements as it is in the government-wide statements.

ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

Equity Classifications

Equity in the government-wide financial statements is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of these assets.
- Restricted net assets - Consists of net assets with constraints placed on their use whether by 1) external groups such as creditors, grantors or laws and regulations of other governments; or 2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Governmental fund equity is classified as fund balance in the fund financial statements. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide financial statements.

Revenues

Property taxes, franchise taxes, licenses, fees-in-lieu of taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Property taxes and fees-in-lieu of taxes associated with future periods are deferred. All other revenue items are considered to be measurable and available only when the City receives cash. Grants are usually reimbursable grants and are thus recognized as revenue at the time the expenditures are made.

Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB Statement No. 33. In addition, other revenues that do not result from providing services are reported as non-operating revenues.

Expenses/Expenditures

When an expense/expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the City's general policy to use restricted resources first.

For proprietary fund financial statements, operating expenses are those that result from providing services to customers.

ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual amounts could differ from these estimates.

Property Tax Calendar

A lien is placed on all property as of January 1 each year. Utah County assesses all taxable property other than centrally assessed property, which is assessed through the State, by May 22 of each year. The City must adopt a final tax rate prior to June 22, which is then submitted to the State for approval. Property taxes are due on November 30. Delinquent taxes are subject to a penalty of 2% or \$10.00, whichever is greater. After January 16 of the following year, delinquent taxes and penalties bear interest at 6% above the federal discount rate from January 1 until paid.

Note 2 – Deposits and Investments

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State, and review the rules adopted by the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The City follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 2 – Deposits and Investments (continued)

At June 30, 2006, the City's deposits and investments consisted of the following:

<u>Financial Statement Description</u>	<u>Deposits</u>	<u>Investments</u>	<u>Cash</u>	<u>Total</u>
Cash and cash equivalents:				
Public Treasurer's Investment Pool	\$ -	<u>289,635</u>	<u>-</u>	<u>289,635</u>
Total cash and cash equivalents	\$ -	<u>289,635</u>	<u>-</u>	<u>289,635</u>
Pooled cash and cash equivalents:				
Demand deposits	\$ 211,888	-	-	211,888
Public Treasurer's Investment Pool	<u>-</u>	<u>1,032,146</u>	<u>-</u>	<u>1,032,146</u>
Total pooled cash and cash equivalents	\$ <u>211,888</u>	<u>1,032,146</u>	<u>-</u>	<u>1,244,034</u>
Restricted cash and cash equivalents:				
Demand deposits	188,248	-	-	188,248
Public Treasurer's Investment Pool	<u>-</u>	<u>189,275</u>	<u>-</u>	<u>189,275</u>
Total restricted cash and cash equivalents	\$ <u>188,248</u>	<u>189,275</u>	<u>-</u>	<u>377,523</u>
Total all deposits and investments	\$ <u>400,136</u>	<u>1,511,056</u>	<u>-</u>	<u>1,911,192</u>

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2006, \$150,148 of the City's bank balances of \$438,395 was uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investments transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with the issuers of investment securities.

ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 2 – Deposits and Investments (continued)

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations, one of which must be Moody’s Investor Services or Standard & Poor’s; bankers’ acceptances; obligations of the United States Treasury including bills, notes,

and bonds; bonds, notes, and other indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated “A” or higher, or the equivalent of “A” or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the State Public Treasurer’s Investment Fund. The Utah State Treasurer’s Office operates the Public Treasurers’ Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionately in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant’s average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares. As of June 30, 2006, all investments held by the City are in the PTIF, which has a maturity of less than 1 year.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City’s policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State’s Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all City investments in commercial paper, bankers’ acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 2 – Deposits and Investments (continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing exposure to credit risk is to comply with the State's Money Management Act as previously discussed. At June 30, 2006, all investments held by the City are in the PTIF which is unrated.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's policy for reducing this risk is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's policy for custodial risk is to use the PTIF whenever possible. As of June 30, 2006, all of the City's investments were in the PTIF.

Note 3 - Receivables and Due From Other Governments

At June 30 2006, the City has accounts receivable and due from other governments as follows:

General Fund:

Accounts receivable:

Garbage	\$	6,016
Other		816
Franchise taxes		<u>11,292</u>

Total accounts receivable	\$	<u>18,124</u>
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Due from other governments:

Class "C" roads	\$	15,130
Property taxes		187,720
Sales tax		<u>35,637</u>

Total due from other governments	\$	<u>238,487</u>
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ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 3 - Receivables and Due From Other Governments (continued)

Enterprise Funds:

Accounts receivable:

Water:

Services and fees \$ 65,066

Sewer:

Services and fees 13,165

Storm Water:

Services and fees 1,792

Total accounts receivable \$ 80,023

Note 4 - Capital Assets

Capital asset changes occurring for the year ended June 30, 2006, are as follows:

	<u>July 1,</u> <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>June 30,</u> <u>2006</u>
<u>Governmental activities:</u>					
Capital assets not being depreciated:					
Land	\$ 201,207	-	-	-	201,207
Construction in process	<u>8,595</u>	<u>12,929</u>	<u>-</u>	<u>-</u>	<u>21,524</u>
Total capital assets not being depreciated	<u>209,802</u>	<u>12,929</u>	<u>-</u>	<u>-</u>	<u>222,731</u>
Capital assets being depreciated:					
Buildings	116,854	-	-	-	116,854
Improvements other than buildings	61,108	29,660	-	-	90,768
Machinery and equipment	525,782	24,227	(3,000)	-	547,009
Infrastructure	<u>2,992,286</u>	<u>485,798</u>	<u>-</u>	<u>-</u>	<u>3,478,084</u>
Total capital assets being depreciated	<u>3,696,030</u>	<u>539,685</u>	<u>(3,000)</u>	<u>-</u>	<u>4,232,715</u>

ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 4 - Capital Assets (continued)

	<u>July 1,</u> <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>June 30,</u> <u>2006</u>
Accumulated depreciation for:					
Buildings	(37,860)	(4,025)	-	-	(41,885)
Improvements other than buildings	(11,988)	(2,593)	-	-	(14,581)
Machinery and equipment	(159,217)	(33,537)	3,000	-	(189,754)
Infrastructure	(687,738)	(78,712)	-	-	(766,450)
Total accumulated depreciation	(896,803)	(118,867)	3,000	-	(1,012,670)
Total capital assets being depreciated, net	2,799,227	420,818	-	-	3,220,045
Total governmental activities capital assets, net	\$ 3,009,029	433,747	-	-	3,442,776
<u>Business-type activities:</u>					
Capital assets not being depreciated:					
Water rights	\$ 188,277	-	-	-	188,277
Land	138,201	-	-	-	138,201
Total capital assets not being depreciated	326,478	-	-	-	326,478
Capital assets being depreciated:					
Structures and systems	2,646,597	494,734	-	-	3,141,331
Total capital assets being depreciated	2,646,597	494,734	-	-	3,141,331
Accumulated depreciation for:					
Structures and systems	(989,707)	(95,222)	-	-	(1,084,929)
Total accumulated depreciation	(989,707)	(95,222)	-	-	(1,084,929)
Total capital assets being depreciated, net	1,656,890	399,512	-	-	2,056,402
Total business-type activities capital assets, net	\$ 1,983,368	399,512	-	-	2,382,880

ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 4 – Capital Assets (continued)

Depreciation expense was charged to functions of the City as follows:

General government	\$ 5,051
Streets and highways	93,705
Public safety	14,190
Parks and recreation	<u>5,921</u>
Total depreciation expense	\$ <u>118,867</u>

Note 5 - Refundable Deposits

The City requires a security deposit for utility services. The deposit, reported as a liability in the water fund, covers garbage pickup, water charges, and sewer services. Security deposits in the water utility fund of \$7,322 were held by the City at June 30, 2006. In addition the City held \$1,200 in other deposits.

The City also requires that developers provide a guarantee deposit to insure that improvements are completed. After all improvements have been made, the deposit is refunded. Contractor deposits of \$192,659 were held by the City as of June 30, 2006 in the general fund. In addition, the City also held \$30,771 in performance bonds.

Note 6 - Long-Term Debt

Long-term liability activity for fiscal year ending June 30, 2006, was as follows:

Governmental Activities

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Due Within <u>One year</u>
Note payable	\$ 5,000	-	(5,000)	-	-
Capital lease payable	<u>51,015</u>	<u>-</u>	<u>(25,638)</u>	<u>25,377</u>	<u>11,883</u>
Governmental activity long-term liabilities	\$ <u>56,015</u>	<u>-</u>	<u>(30,638)</u>	<u>25,377</u>	<u>11,883</u>

ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 6 - Long-Term Debt (continued)

Governmental activities long-term debt was comprised of the following:

Capital lease payable:

Payable to Zions First National Bank, payable in monthly installments of \$1,083 including interest at 5.5%, final payment due in 2009, secured by a fire truck

\$ 25,377

Total general long-term debt

\$ 25,377

The following is a schedule of the future minimum lease payments under the capital lease and the present value of the net minimum lease payments at June 30, 2006:

Years Ending <u>June 30</u>	<u>Amount</u>
2007	\$ 12,996
2008	12,996
2009	<u>947</u>
Future minimum lease payments	26,939
Less amount representing interest	<u>(1,562)</u>
Present value of net minimum lease payments	\$ <u>25,377</u>

At June 30, 2006, the cost of assets financed by capital leases recorded in the governmental fixed assets was \$130,000 and the related accumulated depreciation was \$32,500.

Business Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One year</u>
Bonds payable:					
Revenue bonds	\$ 610,075	-	(315,075)	295,000	20,000
Notes payable	<u>60,622</u>	<u>-</u>	<u>(14,277)</u>	<u>46,385</u>	<u>9,277</u>
Business-type activity long-term liabilities	\$ <u>670,737</u>	<u>-</u>	<u>(329,352)</u>	<u>341,385</u>	<u>29,277</u>

ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 6 - Long-Term Debt (continued)

Bonds and notes payable outstanding at June 30, 2006, was comprised of the following:

\$350,000, Revenue Bond, Series 2002R-1. Administered by the Utah Drinking Water Board for well construction and improvements. Due in annual installments ranging from \$18,000 to \$30,000 plus interest at 3.8%. Matures January 1, 2018.		\$ 295,000
\$92,770 note payable to Dallas Young, payable in semi-annual installments of \$4,638 plus interest at 7.5%, final payment due in 2011, secured by water rights.		<u>46,385</u>
Total proprietary long-term debt		\$ <u>341,385</u>

The annual requirements to amortize all proprietary long-term debt outstanding as of June 30, 2006 were as follows:

<u>Years ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 29,277	14,768	44,045
2008	30,277	12,273	42,550
2009	30,277	11,726	42,003
2010	31,277	10,186	41,463
2011	32,277	8,608	40,885
2012-2016	130,000	26,220	156,220
2017-2018	<u>58,000</u>	<u>3,344</u>	<u>61,344</u>
Total	\$ <u>341,385</u>	<u>87,125</u>	<u>428,510</u>

ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 7 - Restricted Net Assets/Reserved Fund Equity

Restricted net assets and reserved fund equity represent moneys required to be maintained to satisfy third party agreements or legal requirements. The following schedule details restricted equity at June 30, 2006:

Governmental Activities:

Park impact fees	\$ <u>42,332</u>
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Business-type Activities:

Impact fees - Water Fund	\$ <u>167,028</u>
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Bond reserve - Water Fund	\$ <u>189,275</u>
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Note 8 - Designated Fund Equity

Designated fund equity balances represent moneys approved by the Council to be used for specific purposes. These amounts are not legally restricted and can be reallocated by the Council. At June 30, 2006 the City had designated balances in the capital projects funds for specific projects or equipment replacement.

Note 9 - Retirement Plans

Defined Benefit Plans:

The City participates in the Utah Retirement Systems which sponsors multiple employers cost sharing defined benefit pension plans. Utah Retirement Systems provides refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

Utah Retirement Systems is established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. Utah Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of this report may be obtained by writing to Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 9 - Retirement Plans (continued)

During 2006, 2005, and 2004, the City was required to contribute 11.09%, 11.09%, and 9.62%, respectively, of the plan members' annual covered salary in the Local Governmental Noncontributory Retirement System. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Contributions to the Local Government Noncontributory Retirement Systems for the years ending June 30, 2006, 2005 and 2004 were as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Salary subject to retirement contributions	\$ 116,890	108,330	101,838
Employer contributions	12,963	12,014	9,797

All contributions by the City were paid by the due dates or within 30 days thereafter and were equal to the required contributions for each year.

The Utah State Retirement Board of the Utah Retirement Systems provides the City with the necessary retirement disclosures for their report.

Defined Contribution Plan:

The City participates in the Utah Retirement Systems qualified cash or deferred compensation plan under section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may elect to defer a portion of their salary, subject to Internal Revenue Service limits. During the 2006, 2005 and 2004 fiscal years, the City contributed \$1,576, \$1,288, and \$1,117 respectively to the plan on-behalf of the employees.

ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 10 – Interfund Transfers

During the year, the City made the following interfund transfers:

<u>Purpose</u>	<u>Amount</u>	<u>Transfer in</u>	<u>Transfer out</u>
Fund future projects	\$ 2,500	Non-major fund	Water fund
Fund future projects	2,500	Non-major fund	Sewer fund
Fund future projects	12,500	Non-major fund	General fund
Fund future projects	5,000	Non-major fund	General fund
Fund future projects	19,744	Future Improvements fund	General fund
Fund future projects	5,000	Non-major fund	General fund
Fund future projects	5,000	Non-major fund	Sewer fund
Fund future projects	5,000	Non-major fund	Water fund
Equipment purchases	12,081	General fund	Non-major fund
Equipment purchases	11,000	General fund	Non-major fund
Equipment purchases	3,300	General fund	Non-major fund

Note 11 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters. The City participates in the Utah Local Government Insurance Trust (the Trust), a public entity risk pool to manage its risk of loss. The City pays an annual premium to the Trust for its general insurance coverage. The Trust was created as a self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of one million dollars for each insured event. There have been no claim settlements that exceeded the City's insurance coverage for the past three years.

Note 12 - Administrative Fees

Administrative fees are paid by the enterprise funds and are reported as "charges for services" revenue in the general fund. These fees represent an allocation of costs to the enterprise funds for town personnel and other services paid by the general fund.

ELK RIDGE CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 13 - Interlocal Agreement

The City has entered into an interlocal agreement with the Salem City for sewer treatment services. Under the agreement, the City is responsible for 18% of the debt service and capital costs of the sewer treatment facility. At June 30, 2006, Salem City had no outstanding debt related to the sewer treatment facility. The City is also responsible for a portion of the operating and maintenance expenses based on the number of residential equivalent connections. During the year, the City recognized \$55,405 as current expense under the terms of this agreement.

Note 14 - Subsequent Events

On July 9, 2006, the City entered in to an agreement with Payson City wherein Payson City agrees to provide sewer treatment services. Under the agreement the City agrees to pay Payson City \$250,000 in five annual payments of \$50,000 as well as service fees based on the number residential equivalent connections in the City each month. Payson City agrees to construct a sewer trunk line that connects to the City's existing sewer trunk line. The City will maintain ownership of all sewer assets residing within the City limits. The City will not have any ownership of sewer assets residing within Payson City limits. Payment of the \$250,000 and monthly service fees will not commence until Payson City constructs the necessary trunk line to connect to the City's existing trunk line.

On August 2, 2006, the City entered in to an agreement with Salem City wherein the City agrees to sell its 18% ownership interest in the Salem City sewer treatment facility to Salem City. Salem City agrees to pay the City \$250,000 payable in five annual payments of \$50,000. The City will no longer be responsible for any operating and maintenance expenses or debt service and capital costs related to the Salem City sewer treatment facility. The City will not have ownership of any sewer assets residing within Salem City, and Salem City will not have ownership of any sewer assets residing within the City. Salem City's payment of the \$250,000 and the City's discontinuation of payments for operating, maintenance, debt service and capital costs will commence upon the City's connection of its sewer trunk line to the Payson City sewer trunk line.

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Required Supplementary Information

ELK RIDGE CITY
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Taxes	\$ 433,392	456,684	480,815	24,131
Licenses and permits	52,665	90,970	90,996	26
Intergovernmental	101,305	97,082	98,964	1,882
Charges for services	148,780	168,269	168,457	188
Miscellaneous	20,300	45,876	50,144	4,268
Total revenues	756,442	858,881	889,376	30,495
Expenditures:				
General government	400,645	439,113	411,801	27,312
Public safety	168,291	212,386	200,881	11,505
Streets/highways	135,388	200,710	194,012	6,698
Sanitation	66,300	73,000	75,551	(2,551)
Parks and recreation	24,396	32,855	30,917	1,938
Total expenditures	795,020	958,064	913,162	44,902
Excess of revenues over expenditures	(38,578)	(99,183)	(23,786)	75,397
Other financing sources (uses):				
Transfers in (out):				
Fire apparatus fund	(5,000)	6,000	6,000	-
Loafer canyon road fund	(35,000)	12,081	12,081	-
800 MHZ radio fund	3,120	3,300	3,300	-
Backhoe fund	(5,000)	(5,000)	(5,000)	-
Town hall / firestation fund	(10,000)	(12,500)	(12,500)	-
Future improvements fund	90,458	(19,744)	(19,744)	-
Total other financing sources (uses)	38,578	(15,863)	(15,863)	-
Change in fund balance	\$ -	(115,046)	(39,649)	75,397
Fund balance - July 1			200,935	
Fund balance - June 30	\$		161,286	

ELK RIDGE CITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING
June 30, 2006

Budget Presentation

A Budgetary Comparison Schedule is presented for the General Fund and each major special revenue fund as required by generally accepted accounting principles (GAAP). Budgets for governmental funds are adopted on a GAAP basis.

Annual appropriated budgets are adopted for all governmental and business-type funds. All annual appropriations lapse at fiscal year end. Each fund adopts a "balanced budget" in accordance with State law. As allowed by State law, the City Council may authorize increases to or uses of unreserved fund balances. In the budget presentations, authorized increases to fund balance are shown as positive changes in fund balance and authorized decreases are shown as negative changes in fund balance.

Budget Adoption and Monitoring

On or before the first scheduled council meeting in May, all agencies of the City submit requests for appropriation to the City's financial officers so that a budget may be prepared. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

The proposed budget is presented to the City Council for review at the first scheduled meeting in May. The City Council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. The City financial officer must, within the revenues and reserves, estimate any changes in the budget as available or revenue estimates may be changed by an affirmative vote of a majority of the City Council. Within 30 days of adoption, the final budget must be submitted to the State Auditor. If there is no increase to the certified tax rate, a final tax rate is adopted by June 22, and adoption of budgets is done similarly.

State statute requires that City officers shall not incur expenditures or encumbrances in excess of total appropriations for any department in the budget as adopted or subsequently amended.

Only the Council at a properly advertised public hearing can make increases in total fund appropriations. The final budget information presented is after all approved amendments.

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Supplementary Information

ELK RIDGE CITY
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual June 30, 2005</u>
Revenues:				
Taxes:				
General property taxes	\$ 168,790	168,226	(564)	163,408
Fee in lieu of property taxes	27,394	31,626	4,232	26,577
Sales and use taxes	150,000	171,492	21,492	153,035
Franchise taxes	110,000	109,213	(787)	92,178
Other taxes	500	258	(242)	-
Total taxes	<u>456,684</u>	<u>480,815</u>	<u>24,131</u>	<u>435,198</u>
Licenses and permits:				
Business licenses and permits	3,304	3,304	-	2,463
Building permits	87,500	87,526	26	61,373
Animal licenses	166	166	-	182
Total licenses and permits	<u>90,970</u>	<u>90,996</u>	<u>26</u>	<u>64,018</u>
Intergovernmental:				
Class "C" roads	70,000	71,851	1,851	62,365
Liquor allotment	778	778	-	670
Fire department	15,957	15,957	-	41,720
EMS grant	8,749	8,530	(219)	1,079
Parks grant	1,598	1,848	250	500
Other	-	-	-	456
Total intergovernmental	<u>97,082</u>	<u>98,964</u>	<u>1,882</u>	<u>106,790</u>
Charges for services:				
Sanitation	70,600	70,782	182	68,649
Administrative fees	75,180	75,180	-	95,418
Other	22,489	22,495	6	4,126
Total charges for services	<u>168,269</u>	<u>168,457</u>	<u>188</u>	<u>168,193</u>
Miscellaneous revenues:				
Interest	33,494	37,713	4,219	23,424
Fire department fund raiser	2,256	2,256	-	350
Donations	4,680	4,795	115	5,294
Sale of assets	150	100	(50)	-
Other	5,296	5,280	(16)	4,225
Total miscellaneous	<u>45,876</u>	<u>50,144</u>	<u>4,268</u>	<u>33,293</u>
Total revenues	<u>858,881</u>	<u>889,376</u>	<u>30,495</u>	<u>807,492</u>

(continued)

(continued)

ELK RIDGE CITY
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	Final Budget	Actual	Variance Favorable (Unfavorable)	Actual June 30, 2005
Expenditures:				
General government:				
Legislative	36,283	34,447	1,836	31,368
Administrative	300,930	280,248	20,682	267,115
Town hall and fire station	14,900	13,913	987	12,933
Non-departmental	87,000	83,193	3,807	40,268
Total general government	439,113	411,801	27,312	351,684
Public safety:				
Police department	43,000	43,740	(740)	34,607
Fire department	109,386	98,005	11,381	105,856
Animal control	4,000	3,994	6	3,017
Building inspection	56,000	55,142	858	34,574
Total public safety	212,386	200,881	11,505	178,054
Streets/highways:				
Streets department	23,000	18,003	4,997	9,378
Class "C" roads	177,710	176,009	1,701	154,173
Total streets/highways	200,710	194,012	6,698	163,551
Sanitation	73,000	75,551	(2,551)	66,167
Parks and recreation	32,855	30,917	1,938	20,288
Total expenditures	958,064	913,162	44,902	779,744
Excess of revenues over expenditures	(99,183)	(23,786)	75,397	27,748

(continued)

(continued)

ELK RIDGE CITY
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual June 30, 2005</u>
Other financing sources (uses):				
Transfers in (out):				
Parks fund	-	-	-	(1,594)
Fire apparatus fund	6,000	6,000	-	-
Town hall/fire station fund	(12,500)	(12,500)	-	-
800 MHZ radio fund	3,300	3,300	-	3,300
Backhoe fund	-	-	-	5,000
Backhoe fund	(5,000)	(5,000)	-	(5,000)
Future improvements fund	(19,744)	(19,744)	-	(82,705)
Loafer canyon road fund	12,081	12,081	-	-
Total other financing sources (uses)	<u>(15,863)</u>	<u>(15,863)</u>	<u>-</u>	<u>(80,999)</u>
Change in fund balance	\$ <u>(115,046)</u>	<u>(39,649)</u>	<u>75,397</u>	<u>(53,251)</u>
Fund balance - July 1		<u>200,935</u>		<u>254,186</u>
Fund balance - June 30	\$	<u>161,286</u>		<u>200,935</u>

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ELK RIDGE CITY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

	<u>Special Revenue</u>	<u>Capital Projects</u>		
	<u>Parks Fund</u>	<u>Town Hall/ Firestation</u>	<u>Fire Apparatus</u>	<u>800 MHZ Radio</u>
<u>Assets</u>				
Pooled cash and cash equivalents	\$ 72,045	96,540	12,877	3,780
Total assets	<u>72,045</u>	<u>96,540</u>	<u>12,877</u>	<u>3,780</u>
<u>Liabilities and fund balance</u>				
Liabilities	29,713	-	-	-
Total liabilities	<u>29,713</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance:				
Reserved	42,332	-	-	-
Unreserved:				
Designated for:				
Building improvements	-	96,540	-	-
Fire department equipment	-	-	12,877	3,780
Municipal equipment	-	-	-	-
Unreserved, undesignated	-	-	-	-
Total fund balance	<u>42,332</u>	<u>96,540</u>	<u>12,877</u>	<u>3,780</u>
Total liabilities and fund balance	\$ <u>72,045</u>	<u>96,540</u>	<u>12,877</u>	<u>3,780</u>

Capital Projects		Total Nonmajor Governmental Funds
Backhoe	Loafer Canyon	
<u>30,912</u>	<u>-</u>	<u>216,154</u>
<u>30,912</u>	<u>-</u>	<u>216,154</u>
<u>-</u>	<u>-</u>	<u>29,713</u>
<u>-</u>	<u>-</u>	<u>29,713</u>
<u>-</u>	<u>-</u>	<u>42,332</u>
<u>-</u>	<u>-</u>	<u>96,540</u>
<u>-</u>	<u>-</u>	<u>16,657</u>
<u>30,912</u>	<u>-</u>	<u>30,912</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>30,912</u>	<u>-</u>	<u>186,441</u>
<u>30,912</u>	<u>-</u>	<u>216,154</u>

BLK RIDGE CITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

	Special Revenue	Capital Projects		
	Parks Fund	Town Hall/ Firestation	Fire Apparatus	800 MHZ Radio
Revenues:				
Charges for services	\$ 18,645	-	-	-
Total revenues	18,645	-	-	-
Expenditures:				
General government	-	-	-	-
Parks and recreation	34,838	-	-	-
Total expenditures	34,838	-	-	-
Deficiency of revenues over expenditures	(16,193)	-	-	-
Other financing sources (uses):				
Transfer from general fund	-	12,500	5,000	-
Transfer from water fund	-	5,000	-	-
Transfer from sewer fund	-	5,000	-	-
Transfer to general fund	-	-	(11,000)	(3,300)
Total other financing sources (uses)	-	22,500	(6,000)	(3,300)
Change in fund balance	(16,193)	22,500	(6,000)	(3,300)
Fund balance - July 1	58,525	74,040	18,877	7,080
Fund balance - June 30	\$ 42,332	96,540	12,877	3,780

<u>Backhoe</u>	<u>Loafer Canyon</u>	<u>Total Nonmajor Governmental Funds</u>
-	-	18,645
-	-	18,645
-	-	-
-	-	34,838
-	-	34,838
-	-	(16,193)
5,000	-	22,500
2,500	-	7,500
2,500	-	7,500
-	(12,081)	(26,381)
10,000	(12,081)	11,119
10,000	(12,081)	(5,074)
20,912	12,081	191,515
30,912	-	186,441

ELK RIDGE CITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
SPECIAL REVENUE PARKS FUND
For The Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	<u>June 30, 2006</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual June 30, 2005</u>
Revenues:				
Charges for services	\$ 18,698	18,645	(53)	23,545
Total revenues	18,698	18,645	(53)	23,545
Expenditures:				
Parks and recreation	34,837	34,838	(1)	54,410
Total expenditures	34,837	34,838	(1)	54,410
Excess (deficiency) of revenues over expenditures	(16,139)	(16,193)	(54)	(30,865)
Other financing sources (uses):				
Transfers in	-	-	-	1,594
Total other financing sources (uses)	-	-	-	1,594
Change in fund balance	(16,139)	(16,193)	(54)	(29,271)
Fund balance - July 1		58,525		87,796
Fund balance - June 30	\$	42,332		58,525

ELK RIDGE CITY
TOWN HALL/FIRESTATION CAPITAL PROJECTS FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
For the Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	<u>June 30, 2006</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual June 30, 2005</u>
Revenues	\$ -	-	-	-
Total revenues	-	-	-	-
Expenditures:				
General government	-	-	-	-
Total expenditures	-	-	-	-
Deficiency of revenues over expenditures	-	-	-	-
Other financing sources:				
Transfer from water fund	5,000	5,000	-	5,000
Transfer from sewer fund	5,000	5,000	-	5,000
Transfer from general fund	12,500	12,500	-	-
Total other financing sources	22,500	22,500	-	10,000
Change in fund balance	\$ 22,500	22,500	-	10,000

ELK RIDGE CITY
FIRE APPARATUS CAPITAL PROJECTS FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
For the Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	<u>June 30, 2006</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
			<u>Actual June 30, 2005</u>
Revenues	\$ -	-	-
Total revenues	-	-	-
Expenditures:			
Capital outlay	-	-	-
Total expenditures	-	-	-
Excess of revenues over expenditures	-	-	-
Other financing sources:			
Transfer to general fund	(11,000)	(11,000)	-
Transfer from general fund	5,000	5,000	-
Total other financing sources	(6,000)	(6,000)	-
Change in fund balance	\$ (6,000)	(6,000)	-

ELK RIDGE CITY
800 MHZ RADIO CAPITAL PROJECTS FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
For the Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	<u>June 30, 2006</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
			<u>Actual</u> <u>June 30, 2005</u>
Revenues	\$ -	-	-
Total revenues	-	-	-
Expenditures:			
Capital outlay	-	-	-
Total expenditures	-	-	-
Excess of revenues over expenditures	-	-	-
Other financing sources (uses):			
Transfer to general fund	(3,300)	(3,300)	-
Total other financing sources	(3,300)	(3,300)	-
Change in fund balance	\$ (3,300)	(3,300)	(3,300)

ELK RIDGE CITY
BACKHOE FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
For the Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	<u>June 30, 2006</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual June 30, 2005</u>
Revenues	\$ -	-	-	-
Total revenues	-	-	-	-
Expenditures:				
General government	-	-	-	-
Total expenditures	-	-	-	-
Deficiency of revenues over expenditures	-	-	-	-
Other financing sources (uses):				
Transfer to general fund	-	-	-	(5,000)
Transfer from water fund	2,500	2,500	-	5,000
Transfer from sewer fund	2,500	2,500	-	5,000
Transfer from general fund	5,000	5,000	-	5,000
Total other financing sources	10,000	10,000	-	10,000
Change in fund balance	\$ 10,000	10,000	-	10,000

ELK RIDGE CITY
LOAFER CANYON CAPITAL PROJECTS FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
For the Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	<u>June 30, 2006</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual June 30, 2005</u>
Revenues:				
Charges for services	\$ -	-	-	-
Interest	-	-	-	-
Total revenues	-	-	-	-
Expenditures:				
General government	-	-	-	2,595
Total expenditures	-	-	-	2,595
Deficiency of revenues over expenditures	-	-	-	(2,595)
Other financing sources (uses):				
Transfer to general fund	(12,081)	(12,081)	-	
Transfer from sewer fund	-	-	-	8,000
Total other financing sources (uses)	(12,081)	(12,081)	-	8,000
Change in fund balance	\$ (12,081)	(12,081)	-	5,405

ELK RIDGE CITY
FUTURE IMPROVEMENTS CAPITAL PROJECTS FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
For the Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	<u>June 30, 2006</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
			<u>Actual June 30, 2005</u>
Revenues:			
Assessments	\$ -	-	-
Total revenues	-	-	-
Expenditures:			
Capital outlay	-	-	-
Total expenditures	-	-	-
Excess of revenues over expenditures	-	-	-
Other financing sources (uses):			
Transfer from general fund	19,744	19,744	-
Total other financing sources (uses)	19,744	19,744	-
Excess (deficiency) of revenue over Change in fund balance	\$ 19,744	19,744	-

ELK RIDGE CITY
WATER FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
For the Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	<u>June 30, 2006</u>		<u>Variance</u>	<u>Actual</u>
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>	<u>June 30, 2005</u>
Operating revenues:				
Services	\$ 400,000	418,736	18,736	339,308
Connection fees	7,125	7,500	375	4,475
Miscellaneous	4,100	4,104	4	4,283
Total operating revenues	411,225	430,340	19,115	348,066
Operating expenses:				
Administrative fee	51,426	51,426	-	76,907
Current expenses	142,450	117,006	25,444	103,823
Depreciation	66,222	67,907	(1,685)	66,222
Total operating expenses	260,098	236,339	23,759	246,952
Operating income	151,127	194,001	42,874	101,114
Non-operating income (expense):				
Transfer to capital projects fund	(7,500)	(7,500)	-	(10,000)
Impact fees	56,950	60,300	3,350	20,100
Water right fee	62,977	62,977	-	90,280
Interest income	12,500	12,528	28	8,792
Income before capital income (expenses)	276,054	322,306	46,252	210,286
Capital budget income (expenses):				
Equipment and improvements	(1,000)	(165)	835	(151,752)
Debt payments	(351,543)	(351,445)	98	(144,203)
Total capital budget income (expenses)	(352,543)	(351,610)	933	(295,955)
Net income (loss) budget basis	\$ (76,489)	(29,304)	47,185	(85,669)
Adjustments from budget basis to GAAP basis:				
Equipment and improvements		8,130		151,752
Donation Revenue		149,817		16,623
Principal payments on debt		326,852		117,114
Net income GAAP basis	\$	455,495		199,820

ELK RIDGE CITY
SEWER FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
For the Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	<u>June 30, 2006</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual June 30, 2005</u>
Operating revenues:				
Services	\$ 120,200	120,154	(46)	116,557
Connection fees	3,600	3,600	-	3,625
Total operating revenues	123,800	123,754	(46)	120,182
Operating expenses:				
Administrative fee	23,754	23,754	-	18,511
Current expenses	93,241	77,253	15,988	74,687
Depreciation	24,400	25,735	(1,335)	24,400
Total operating expenses	141,395	126,742	14,653	117,598
Operating income (loss)	(17,595)	(2,988)	14,607	2,584
Non-operating income (expense):				
Impact fees	37,800	37,800	-	14,000
Transfer to capital projects fund	(7,500)	(7,500)	-	(18,000)
Interest income	12,000	12,054	54	6,346
Income before capital income (expenses)	24,705	39,366	14,661	4,930
Capital budget income (expenses):				
Equipment and improvements	(59,000)	(59,134)	(134)	-
Debt payments	(2,500)	(2,500)	-	(2,500)
Total capital budget income (expenses)	(61,500)	(61,634)	(134)	(2,500)
Net income budget basis	\$ (36,795)	(22,268)	14,527	2,430
Adjustments from budget basis to GAAP basis:				
Donation Revenue		198,289		-
Equipment and improvements		58,934		-
Principal payments on debt		2,500		2,500
Net income GAAP basis	\$	237,455		4,930

ELK RIDGE CITY
STORM DRAINAGE FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
For the Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	<u>June 30, 2006</u>		<u>Variance</u>	<u>Actual</u>
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>	<u>June 30, 2005</u>
Operating revenues:				
Charges for services	\$ <u>18,730</u>	<u>18,727</u>	<u>(3)</u>	<u>18,291</u>
Total operating revenues	<u>18,730</u>	<u>18,727</u>	<u>(3)</u>	<u>18,291</u>
Operating expenses:	<u>7,035</u>	<u>5,941</u>	<u>1,094</u>	<u>-</u>
Total operating expenses	<u>7,035</u>	<u>5,941</u>	<u>1,094</u>	<u>-</u>
Operating income	11,695	12,786	1,091	18,291
Capital budget income (expenses):				
Loan payment		<u>-</u>	<u>-</u>	<u>(6,020)</u>
Total capital budget income (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,020)</u>
Net income budget basis	\$ <u><u>11,695</u></u>	<u>12,786</u>	<u><u>1,091</u></u>	<u>12,271</u>
Adjustments from budget basis to				
GAAP basis:				
Donation Revenue		79,564		5,683
Depreciation		<u>(1,580)</u>		<u>(842)</u>
Net income (loss) GAAP basis	\$	<u><u>90,770</u></u>		<u><u>17,112</u></u>

ELK RIDGE CITY
NET REVENUE BOND REQUIREMENT
WATER FUND
Year Ended June 30, 2006

Operating income	\$	193,836
Adjustments to calculate net revenues:		
Interest		16,463
Depreciation		<u>67,907</u>
Net revenues	\$	<u><u>278,206</u></u>
Debt service requirement for fiscal year 2007		
Principal	\$	20,000
Interest		<u>11,210</u>
Total debt service requirement		<u>31,210</u>
Bond requirement of 125% of debt service	\$	<u><u>39,013</u></u>
Excess of net revenues over bond requirement	\$	<u><u>239,194</u></u>

ELK RIDGE CITY SUPPLEMENTAL WATER INFORMATION

June 30, 2006

Users and Rates

The Elk Ridge City water fund serves both residential and commercial users. As of June 30, 2006, there were the following users:

Water	512
-------	-----

Water rates:

The monthly rate charged is \$40.00 for up to 12,000 gallons used. Users are charged for monthly usage in excess of the 12,000 gallons at a rate of \$1.80 for each 1,000 gallons between 12,000 and 50,000 gallons, \$2.00 for each additional 1,000 gallons between 50,000 and 75,000 gallons, \$2.25 for each 1,000 gallons between 75,000 and 125,000 gallons and \$2.75 for each 1,000 gallons over 125,000 gallons.

Meters are read monthly from March 31st to October 31st. Users are billed the monthly rate during November through March and their bill is adjusted for excess usage when the meters are read.

Insurance and Bonding

The City maintains insurance on all vehicles and employees. In addition, the City maintains the following insurance and bonding policies:

<u>Company</u>	<u>Coverage Amount</u>	<u>Coverage</u>	<u>Expiration</u>
Utah Local Gov. Trust	\$ 5,000,000	General liability	Continuous
Utah Local Gov. Trust	\$ 5,000,000	Bodily injury, personal injury, property damage, errors and omissions	Continuous
Utah Local Gov. Trust	\$ 1,310,583	Physical property	July 1, 2006
Utah Local Gov. Trust	\$ 65,000	Uninsured motorist	Continuous
Utah Local Gov. Trust	\$ 50,000	Underinsured motorist	Continuous
Western Surety Company	\$ 85,000	Treasurer fidelity bond	Oct. 23, 2006
Western Surety Company	\$ 159,000	Mayor fidelity bond	Oct. 16, 2006
Western Surety Company	\$ 159,000	Recorder fidelity bond	Oct. 16, 2006
Western Surety Company	\$ 50,000	Employees fidelity bond	Oct. 23, 2006

ELK RIDGE CITY
WATER BOND RESTRICTED ACCOUNTS
June 30, 2006

PTIF Account #	Series 1990		Series 1993 (all)			Series 1997			Series 2002	
	Activity	Bond Sinking	Reserve	Restricted	Reserve	Capital Facility	Restricted	Reserve	Reserve	Bond
Balance 7/1/05		\$ 12,921.89	11,215.20	41,576.69	26,588.98	136,305.13	23,704.56	36,895.72	8,923.17	19,717.37
Additions:										
Interest		378.19	295.88	1,123.11	701.48	6,202.35	1,017.39	1,017.81	457.40	804.14
Transfers in		1,680.51	-	12,666.72	-	13,485.00	59,946.10	3,200.00	3,019.50	31,292.74
Deletions:										
Transfers out		(14,980.59)	(11,511.08)	(55,366.52)	(27,290.46)	-	(84,668.05)	(41,113.53)	-	(30,932.00)
Balance 6/30/06		\$ -	-	-	-	155,992.48	-	-	12,400.07	20,882.25

ELK RIDGE CITY
SUPPLEMENTAL IMPACT FEE
INFORMATION
June 30, 2006

Impact Fees Collected

The following schedule details the unspent impact fee funds by year in which they were received.

	<u>Park Impact Fees</u>	<u>Water Impact Fees</u>	<u>Sewer Impact Fees</u>
2002	-	38,928	-
2003	-	17,125	-
2004	-	22,244	-
2005	23,558	23,040	-
2006	20,761	65,691	-
Total unspent impact fees	<u>44,319</u>	<u>167,028</u>	<u>-</u>
<u>Planned uses for unspent impact fees</u>			
City Park fencing and improvements	44,319	-	-
2 million gallon water tank	-	93,285	-
10" water line project	-	27,101	-
New water well	-	46,642	-
Total	<u>44,319</u>	<u>167,028</u>	<u>-</u>
<u>Projected schedule for expenditure:</u>			
2007	9,000	120,386	-
2008	35,319	46,642	-
2009	-	-	-
2010	-	-	-
2011	-	-	-
Total	<u>44,319</u>	<u>167,028</u>	<u>-</u>

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ELK RIDGE CITY
GOVERNMENTAL AUDIT REPORTS

June 30, 2006



Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

To the Mayor and City Council
Elk Ridge City
Elk Ridge, Utah

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Elk Ridge City, Utah, (the City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 3, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance which we have reported to management in a separate letter dated January 3, 2007.

This report is intended solely for the information and use of the management of the City, the City Council, and State agencies and is not intended to be and should not be used by anyone other than these specified parties.



JONES SIMKINS, P.C.
January 3, 2007

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ELK RIDGE CITY
STATE COMPLIANCE REPORT

June 30, 2006



Certified Public Accountants

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P.O. Box 747

Logan, UT 84323-0747

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H. Paul Gibbons, CPA

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH STATE LEGAL COMPLIANCE REQUIREMENTS**

To the Mayor and City Council
Elk Ridge City
Elk Ridge, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Elk Ridge City, Utah (the City) for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 3, 2007. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

Class C Road Funds (Department of Transportation)
Liquor Law Enforcement Funds (State Tax Commission)

The City also received the following nonmajor grant which is not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the City's financial statements).

EMT Grant (Department of Health)
Fire Department FEMA Grant (Department of Homeland Security)
Parks Grant (Department of Transportation)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Property Tax Limitations
- Other Compliance Requirements
- Uniform Building Code Standards
- Impact Fees and Other Development Fees

The management of the City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with requirements referred to above, which are described in a separate letter to management dated January 3, 2007. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the city complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.



JONES SIMKINS, P.C.
January 3, 2007



Certified Public Accountants

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H. Paul Gibbons, CPA*

Mayor and City Council
Elk Ridge City
Elk Ridge, Utah

We have audited the financial statements of Elk Ridge City for the year ended June 30, 2006, and have issued our report thereon dated January 3, 2007.

Communications Required Under Professional Standards

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards.

As stated in our engagement letter dated July 18, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control of Elk Ridge City. Such considerations were solely for the purpose of determining our audit procedures and to report on the internal control in accordance with Government Auditing Standards and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Elk Ridge City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies and Audit Adjustments

Management has the responsibility for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. For the purposes of this letter,

professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Audit adjustments were posted to restricted cash, accounts receivable, fixed assets, accounts payable, interest payable, accrued liabilities, developer escrow liability, deferred revenue, long-term debt and fund balance to ensure proper recording in accordance with generally accepted accounting principles.

Internal Control

In planning and performing our audit of the financial statements of Elk Ridge City for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no conditions during our review of the internal control that we believe are material weaknesses. However, our audit disclosed the following conditions that although not considered by us to be material weaknesses, are either weaknesses in internal control for which corrective action might be taken or immaterial instances of noncompliance. We suggest the following:

General Recommendations

1. A follow-up on the recommendations in this letter should be made by the City Council and reflected in the Council's minutes before the next year's budget is adopted.

Management Response:

The City Council will consider the recommendations made by the auditor in a public meeting and take formal action to make any required corrections. These actions will be recorded in the official minutes of the meeting.

State Compliance

2. The City's general fund balance exceeds the statutory limit. State law limits undesignated general fund balance to 18% of the estimated revenues of the general fund of the City. We recommend that the City Council consider transferring a portion of the fund balance to a capital projects fund to provide resources for future capital projects.

Management Response:

Following the audit presentation, the City will amend the Budget for the fiscal year 2006/2007, and make the necessary adjustment to the General Fund to maintain less than the 18% allowance for fund balance. An effort has been made to reduce the fund balance to about 10% to reduce the risk of exceeding the 18% limit.

Internal Control Requirements

3. As the City experiences increased levels of new development, management has an increased need to develop a more robust system of controls to ensure the proper recording of developer related deposits.

Management Response:

The City will verify the developer accounts with the bank managers directly after they are established and will make sure statements are issued regularly on appropriate accounts.

4. The City Council and management should be aware that accounting and auditing standards continue to be issued at a rapid rate. New standards effective in the near future require management to assess a wide variety of risks and implement controls to address these risks. Management needs to review these new standards and determine what impact they might have on the City's policies and procedures.

Management Response:

Management will consult with the auditor regularly to ascertain the most current directives and correct information regarding the accounting standards and practices.

We have appreciated the cooperation and assistance from City personnel during our audit. Their help was very beneficial in the completion of this year's audit.

This report is intended solely for the use of the management of the City, the City Council, and the State of Utah Auditor's Office and should not be used for any other purposes. If questions arise concerning the above recommendations, please contact us and we will be happy to discuss them with you.



JONES SIMKINS, P.C.
January 3, 2007

Elk Ridge

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March 27, 2007

State of Utah
Office of the State Auditor
Utah State Capitol Complex
East Office Building, Suite E310
PO Box 142310
Salt Lake City, UT 84114-2310

Response to letter dated February 5, 2007
& letter dated March 23, 2007

RE: Non-compliance issues

The City is aware of the need to maintain the 18% limit in the General Fund for Fund Balance; however, the end of the fiscal year seems to present a problem with the attempt to present a true and correct picture of the year's finances.

The problem is not ignored; and in fact was adjusted down to 10% to close out the 2005/2006 fiscal year. With year-end adjustments, it brings the fund balance up. The City is in the process of amending the current year budget tonight, March 27, 2007. As I checked the total revenue for the General Fund, the fund balance sits at under the 18% limit at this point in time.

To lessen the chance of year-end adjustments, the City has recently hired a CPA to assist with the finances on a quarterly basis, including year-end budgets. The City Council is aware of the need to stay within the confines of the law and is making every attempt to do so.

Yours Truly,



Mayor Dennis A. Dunn



